Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Cogdill | Analyst: Jane Tolman | Bill Number: AB 81XX

Related Bills: See Prior Analysis | Telephone: 845-6111 | Amended Date: 8/20/01

Attorney: Patrick Kusiak | Sponsor: ____

SUBJECT: Energy Conservation Measures Deduction

____	DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended ____.
X	AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
X	AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced July 10, 2001.
X	FURTHER AMENDMENTS NECESSARY.
____	DEPARTMENT POSITION CHANGED TO ____.
X	REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED July 10, 2001 STILL APPLIES.
____	OTHER - See comments below.

SUMMARY

This bill would allow a deduction for energy conservation measures for residential dwellings or small commercial buildings in this state.

SUMMARY OF AMENDMENT

The August 20, 2001, amendments would allow this deduction to be considered in the computation of California adjusted gross income (AGI), which is commonly called an "above the line deduction."

The amendments make the deduction elective and state that if the taxpayer elects to take the energy conservation deduction, that deduction shall be in lieu of any other deduction (i.e., business expense deduction) or credit allowed. The taxpayer may not change the election without consent from the Franchise Tax Board. The amendments also make some technical changes.

The unresolved implementation considerations, as well as the new implementation consideration and revenue arising from the amendments, are provided below. The remainder of the department's analysis of the bill as introduced July 10, 2001, still applies.

POSITION

Pending.

Board Position:						Legislative Director	Date
____	S	____	NA	____	NP	Brian Putler	08/31/01
____	SA	____	O	____	NAR		
____	N	____	OUA	X	PENDING		

Summary of Suggested Amendments

Department staff is available to assist with amendments to resolve the considerations discussed in this analysis.

IMPLEMENTATION CONSIDERATIONS

This bill would require an energy conservation measure to be installed by a "professional installer licensed by the state." "Professional installer" is undefined, and it is unclear what state entity would license these professional installers.

It is unclear if "cost" would be limited to the principal price of the energy conservation measure or if it would include interest and other possible financing costs.

The deduction would be limited to $750 per taxable year for a residential dwelling and $1,500 for a small commercial building. However, it is unclear whether the author intended that the limitation for a small commercial building would be applied for a taxable year or for each small commercial building owned by the taxpayer.

New Consideration

Since this deduction would be "above the line," it would be included on the Schedule of California Adjustments (commonly called the Schedule CA). Surplus space is limited on that schedule.

After resolution of these concerns, implementation of this bill should not significantly impact the department's programs and operations.

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, this bill would result in revenue losses on the order of $14 million annually beginning in 2001-02.

Tax Revenue Discussion

The revenue impact of this bill would be determined by the amount of costs incurred by taxpayers for qualified energy conservation measures with respect to any residential dwelling or small commercial building in the state, the number of taxpayers who elect to take the proposed deduction, and the marginal tax rates of taxpayers incurring such costs.

In California, there are roughly 12 million residential structures/units and 485,000 nongovernmental-owned commercial buildings. The number of commercial buildings that would qualify under the bill as "small" is unknown, perhaps one-half. Qualified energy conservation measures and costs (any passive system capable of saving a minimum of 5% in the amount of energy for cooling) that may be claimed as deductions by taxpayers can range in cost from a few hundred dollars for additional insulation to several thousand dollars for a replacement roof.

In most cases, owners of investment residential property and small commercial buildings would expense under current law any qualified energy conservation measures; therefore, the potential revenue loss effect of the bill would be largely attributed to taxpayers who own and occupy a residence. In any given year, if 5% of owner occupied households incur average costs of $2,500, qualified costs would total $650 million, of which 25% is potentially deductible under the proposal.

The potential state revenue loss would be $13 million for households assuming an 8% marginal tax rate. Any additional revenue effect attributed to owners of renter occupied residential dwellings or small commercial buildings would be minimal. Qualified costs are projected to increase 5% a year. Upon converting taxable year losses to fiscal year losses, revenue losses would be $14 million annually in the initial three fiscal years.

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